

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

PURCHASED WATER ADJUSTMENT OF       )  
HENDERSON COUNTY WATER DISTRICT    )   CASE NO. 8087-1

O R D E R

On March 30, 1982, Henderson County Water District ("Henderson County") filed its application with the Public Service Commission seeking approval of a purchased water adjustment clause and authority to adjust its rates for service in accordance with that clause. On November 28, 1980, Henderson County's water supplier, the City of Henderson ("City"), notified it of an increase in wholesale rates from 45.32 to 58.67 cents per 1,000 gallons. The proposed new rate consisted of 50.67 cents as the certified cost of producing the water and 8 cents as profit. Henderson County contended that only the cost of producing the water could be charged under the current contract. Due to this controversy the new rate of 58.67 cents was not implemented until July '1981. At this time, Henderson County on the advice of counsel, began paying the City 50.67 cents and depositing 8 cents in an escrow account until the dispute could be resolved. In order to avoid additional conflict and/or litigation, Henderson County proposed to the

City that a compromise rate of 54.67 cents be installed retro-active to the July 1981 billing. As of August 12, 1982, the Commission had not received a response from Henderson County concerning the decision of the City on the compromised rate and the case was dismissed without prejudice. On August 20, 1982, Henderson County filed a motion to set aside the Order of dismissal and reinstate this case, which was sustained. As a part of that motion, Henderson County supplied a copy of the final settlement on the wholesale rate with the City.

Prior to approving increased rates resulting from purchased water cost increases, pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition and determine whether it can absorb any of the increased cost. If there is a potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

#### Test Period

For the purpose of determining the reasonableness of the proposed purchased water adjustment and increase in rates, the Commission has adopted the year ending December 31, 1981, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

### Revenues and Expenses

Henderson County proposed to adjust revenues by \$21,429 to recover the increased cost of purchased water. No other adjustments were proposed. The Commission, after careful examination of Henderson County's financial condition, made the following adjustment to expenses in conformance with its rate-making policy to more fairly represent the actual operating expenses of Henderson County:

#### Purchased Water Expense

The increase in the cost of purchased water adjusted for 15 percent line loss under the base rate of 45.32 cents and the new rate of 54.67 cents is \$21,429. In determining the purchased water adjustment, Henderson County adjusted for a 15 percent line loss as provided for in the regulations of the Commission. However, Henderson County did not reduce total purchased water costs for the test year to exclude the excess line loss. Therefore, the pro forma purchased water expense included herein for rate-making purposes is \$125,296<sup>1/</sup> based on the maximum allowable gallons of 229,185,419<sup>2/</sup> and the adjusted wholesale water rate of 54.67 cents per 1,000 gallons.

---

1/  $229,185,419 \times 54.67 \text{ cents per } 1,000 \text{ gallons} = \$125,296.$

2/  $194,807,606 \div .85 = 229,185,419.$

Adjustments to the test period operations have produced the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$461,839	\$ -0-	\$461,839
Operating Expenses	<u>351,546</u>	<u>(10,115)</u>	<u>341,431</u>
Operating Income	110,293	10,115	120,408
Other Income (Deductions) - Net	<u>(74,595)</u>	<u>-0-</u>	<u>(74,595)</u>
Net Income	<u>\$ 35,698</u>	<u>\$10,115</u>	<u>\$ 45,813</u>

#### Revenue Requirements

Henderson County's annual debt service is \$137,419 based on the maximum annual requirements for principal and interest as set out in its bond issuance agreement with First National Bank. In addition, the bond issuance agreement specifies that Henderson County maintain net revenues<sup>3/</sup> equal to at least a 1.3 coverage. Using the debt service calculation defined herein, Henderson County would realize a debt service coverage of 1.51 for the adjusted test period operations. The Commission is of the opinion that this coverage is sufficient to enable Henderson County to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus and that no additional revenue is required in this instance.

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

---

<sup>3/</sup> Gross income and revenues less operating expenses exclusive of allowances for depreciation.

(1) The purchased water adjustment clause sought by Henderson County is in compliance with 807 KAR 5:067, Purchased Water Adjustment Clause, is in the best interest of the public, and should be approved.

(2) The City has increased the wholesale cost of water effective July 1981, from 45.32 to 54.67 cents per 1,000 gallons.

(3) After taking into consideration the above-mentioned adjustments to expenses, Henderson County should absorb all of the increased cost of water, and an adjustment of rates is not necessary to maintain Henderson County's financial integrity.

(4) The base rate for purchased water for future application of the purchased water adjustment clause should be:

<u>Supplier</u>	<u>Rate</u>
City of Henderson	\$.5467 per 1,000 gallons

(5) The rates proposed by Henderson County would produce revenue in excess of that found fair by the Commission and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates sought by Henderson County be and they hereby are denied.

IT IS FURTHER ORDERED that the purchased water adjustment clause filed by Henderson County be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Henderson County, the base rate for purchased water shall be:


<u>Supplier</u>	<u>Rate</u>
City of Henderson	\$.5467 per 1,000 gallons

IT IS FURTHER ORDERED that all provisions of Henderson County's tariffs not specifically mentioned herein shall remain in full force and effect.

IT IS FURTHER ORDERED that Henderson County file its tariffs setting out the purchased water adjustment clause approved herein.

Done at Frankfort, Kentucky, this 26th day of October, 1982.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST

\_\_\_\_\_  
Secretary